

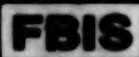
**JPRS 74086**

**27 August 1979**

# **China Report**

**ECONOMIC AFFAIRS**

**No. 11**



**FOREIGN BROADCAST INFORMATION SERVICE**

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<b>REPORT DOCUMENTATION PAGE</b>		1. REPORT NO. JPRS 74086	2.	3. Recipient's Accession No.
4. Title and Subtitle CHINA REPORT: ECONOMIC AFFAIRS, No.11			5. Report Date 27 August 1979	
7. Author(s)			6.	
9. Performing Organization Name and Address Joint Publications Research Service 1000 North Glebe Road Arlington, Virginia 22201			8. Performing Organization Rept. No.	
12. Sponsoring Organization Name and Address  As above			10. Project/Task/Work Unit No.	
			11. Contract(C) or Grant(G) No. (C) (G)	
15. Supplementary Notes			13. Type of Report & Period Covered	
			14.	
16. Abstract (Limit: 200 words)  This serial report contains economic information on China.				
17. Document Analysis a. Descriptors CHINA National Economic Policy Economic Planning Finance and Banking Fuels and Power Mineral Resources Heavy and Light Industry Capital Construction Domestic and Foreign Trade Transportation  b. Identifiers/Opon-Ended Terms 05C, 13  c. COSATI Field/Group				
18. Availability Statement Unlimited Availability Sold by NTIS Springfield, Virginia 22161		19. Security Class (This Report) UNCLASSIFIED 20. Security Class (This Page) UNCLASSIFIED		21. No. of Pages 40 22. Price

27 August 1979

# CHINA REPORT

## ECONOMIC AFFAIRS

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## NATIONAL ECONOMIC POLICY

### EXPANSION OF DECISION-MAKING POWER OF LOCAL ENTERPRISES URGED

Beijing GUANGMING RIBAO in Chinese 28 Jul 79 p 4

[Article by Zhu Fulin [2612 4395 2651] and Xiang Huaicheng [7309 2037 6134]: "Reform of the System of Fiscal Management Calls for Expansion of the Decision-Making Power of Local Authorities and Enterprises"]

[Text] The system of fiscal management is an important integral part of the system for managing the economy. Reform of the system of fiscal management is an important measure to bring into full play the initiative, the zeal, and the creativity of individuals in central government departments, locales, enterprises, and workers to conduct a policy of thorough reorganization, reform and overhaul to assure fulfillment of the four modernizations. Here we examine the thrust of this reform and the steps to be taken.

#### 1

The system of fiscal management in our country is an important system for fixing the limits of authority of financial management and the limits of receipts and expenditures between the central government and localities, and between the state and enterprises. Simply stated, it defines just how much fiscal authority and responsibility each level of government has from the central government down to the localities, and just how much fiscal authority and responsibility enterprises and institutes possess.

During the past 30 years since the founding of the People's Republic, as economic circumstances have developed and changed, our national financial management system has instituted improvements on several occasions. Generally speaking, national fiscal authority has developed gradually from a highly concentrated uniform receipt and expenditure system to a system of level-to-level administration under unified leadership to meet, by and large, the requirements of the politico-economic situation at various times. But the several reforms to the financial and economic administrative system of the past lay particular stress on centralization and dispersal of authority between upper and lower levels and between vertical and lateral echelons.



They never jumped out of the circle of using administrative techniques to manage the economy. Several times our enterprises and institutions have had authority delegated downward only to be taken back upward again with administrative jurisdiction first dispersed and then concentrated several times. Some economic departments have been decentralized and then merged several times, but there has been no fundamental resolution of the problem of how to enlarge the decision-making power of enterprises and institutions.

Under the existing fiscal management system, a system operates whereby the central government and localities, (national minority autonomous regions aside) divide a total sum of revenues and whereby, in the relationship between the state and enterprises, all profits flow upward, deficits are subsidized by the state, and the state disburses funds required to develop production. Though historical background exists on how this system of fiscal management came into being and developed, it must be admitted that it is fundamentally still a method of centralized receipts and centralized disbursements that has many drawbacks. One is that on every level of public finance there is a lack of clear authority and responsibility. Every year the amount of revenue fiscal organs in localities are to have and how much is to be spent for what must, in the overwhelming majority of cases, be checked and ratified item by item by the central government. As for those funds allocated to localities, the localities possess no authority to use them to suit measures to local conditions or for overall planning. Second is that a conflict between the demand for public funds and the capabilities of public funds is concentrated at the central government level. Decisions as to how much of locally obtained revenues may be spent by the locality and what things may be done are all set down in the financial budget of the central government at the beginning of each year. If in the course of the year some new expense crops up in a locality requiring a supplementary budget, by the time the matter to be decided moves up through the administrative structure for approval at each level, not only will a decision not be reached in time but the required increase in expenditure will frequently exceed the capabilities of financial resources throwing financial receipts and expenditures out of balance. Third, the fiscal system whereby decisions are made one each year hurts local programming and long range planning, and also hurts both the steady advance of production and construction and the steady increase in financial revenues. Fourth is the tendency toward egalitarianism in the distribution of financial resources among locales. In locales in which differences exist in contributions to production and construction, except for differences in distribution of reserve funds in excess of revenues, there are no basic distinctions made on disbursements for each item, which serves not to encourage advance but promote backwardness. Noteworthy is the lack of fiscal management authority in enterprises. No direct relationship exists between how well an enterprise is run and the economic well-being of either the enterprise or its employees, and this hurts efforts to get the enterprise or its employees to improve the way the enterprise is run or to promote enthusiasm for development of production.

After summarizing past experience, we hold that reform of the current system of fiscal management must be thoroughgoing. Not only must relationships between vertical and lateral echelons be resolved, but even more important is the resolution of the relationship between the state and enterprises and institutions. The process of reform must adhere to the following several principles: 1) it must benefit the full play of initiative, zeal and creativity within central government departments, localities, enterprises and workers as individuals; 2) it must expand local decision-making power over finances and authority over financial affairs by enterprises while consolidating unified central leadership and while ensuring essential state expenditures; 3) objective economic laws must be observed, economic methods employed to gain economic benefits, economic development accelerated, and the speed of capital accumulated increased; 4) the authority and responsibility at all levels of fiscal and economic units in the management of finances must be clearly delineated with an organic linking of authority and responsibility.

2

Unified leadership with management by each level is the fundamental principal to which our national fiscal management system must adhere.

Unified leadership in the system of fiscal management, concretely speaking, means uniform general and specific fiscal policies throughout the country, uniform financial planning, and a system of uniform financial codes and regulations. These three uniformities are the three main ingredients of central unified leadership. Lacking these three uniformities, there can be no unified will or unified action nationwide. Consequently, when reforming the system of fiscal management, whatever must be centralized and uniform must be kept centralized and made uniform to assure that the central government has essential financial resources for use in key national construction and for the strengthening of national defense. These necessities are easy for the people to understand. But maintenance of unified leadership by the central government is not to imply that all economic activity must be under the unified management of the central government. In a country as large as ours with a population so numerous and circumstances so complex, development of socialist construction requires an expansion of the limits of local authority in matters pertaining to reform of the system of fiscal management.

How can local decision-making power on fiscal matters be expanded? A rather thoroughgoing method would be to delineate the spheres for revenues and expenditures for the central government and the localities, and to institute level-to-level public finance; to define the authority and the responsibility of each level of finance, and link authority with responsibility. Concretely stated, this calls for a guarantee of three authorities to localities: one is that the locality have a stable source of income; two is that the locality have authority, within general and specific national policies, to integrate local realities and to plan in an overall way all local financial outlays; three is to possess authority, insofar as pertinent central government regulations permit, to formulate local financial rules and regulations. These three authorities are the ingredients of local management at each level.

This constitutes an independence for localities that is presently justified. It is a fiscal authority that is indispensable to the exercise of local political authority. What is meant by allowing localities to have their own revenues is that a portion of revenues may be designated for localities or else a system of proportional apportionment between the central government and localities may be instituted on the basis of the total budget of the locality. During this period of adjustment of the national economy, considering that appropriate reforms have not been made in the management system for planning, enterprises, capital construction, and materials and goods, and considering that conditions are still not ready for implementation of a relatively thoroughgoing level-by-level system of public finance, thought should be given to adoption of an interim method for apportioning total revenues with proportional responsibility for fulfillment of tasks. These interim measures should lie within the defined scope of local financial revenues and expenditures and separate determination should be made of the proportions to be transmitted upward or retained locally on the basis of the situation in local revenues and expenditures that have obtained over the past several years, with localities taking responsibility for tasks and with positively no change in this method for a period of several years. Once the proportions have been determined, the revenues going upward to the central government should be handled in a uniform way by the central government with the revenues that are to be retained by the locales being handled in an overall way. In areas where revenues are less than expenditures, either the totality of revenues should be locally retained or the central government should establish a fixed assistance figure that would also not change for several years. These fiscal systems should expand local decision-making authority for financial matters, but this would still not be a level-by-level financial system nor a thoroughgoing method of reform.

Is the institution of a level-by-level finance system equivalent to saying that there would suddenly be a rather large increase in the financial resources apportioned to localities to satisfy their local needs? We hold that an expansion in decision-making authority and an increase in financial resources, though related, are different. Unless the increase in national public revenues is great, there can be no increase in disbursement of financial resources level-by-level. Adoption of a method whereby financial resources are taken from the central government to increase the financial resources of the locales is not advisable. But once their decision-making authority has been expanded, the localities can more equitably and more effectively use all of their financial resources to develop production more rapidly and to increase revenues so that the local financial resources will constantly increase with greater contributions going to the nation as well. It can be predicted that once a system of level-by-level finance has been instituted and local fiscal authority expanded, inevitably some localities will be adept at using their decision-making authority to give full play to local assets with economic development proceeding faster and the people's prosperity advancing faster. Some other locales, however, will develop more slowly and prosper more slowly. This accords with the law of the



uneven development of things, and can be an enabling force to rouse lagging areas to catch up with advanced ones to accelerate the development of the national economy. We should not fear lest some areas become wealthy first. Heretofore, the guiding thought we have often had when designing systems to manage public finance and fiscal management systems for enterprises was to emphasize rather strongly the prevention of inequities between misery and well-being. Frequently this became our principle in designing fiscal management systems. But looked at now, it is necessary to break these old egalitarian restrictions. Socialism desires that everybody prosper together, but it is also necessary to admit that differences do exist. If first you become rich and later I become rich, finally everybody is able to be rich. If I am poor and you are also poor, in the end everybody can only be poor. After more than 20 years of training of this kind, is it possible that it has not yet sunk in? Of course, in areas where the economy is weak and conditions are not so good, particularly in the old revolutionary base areas, the state should give special care and emphasize increased support. For this purpose the state should set up a special fund to give help to these areas.

In the nationalities autonomous regions, local fiscal decision-making powers should be a little greater than they are. Considering the present state of affairs in our country, a return to the locales of all revenues might be implemented in the nationalities autonomous regions with the central government giving an additional fixed supplementary sum. Furthermore, depending on the special circumstances in nationalities autonomous regions, other stipulations for care should be made.

3

Whether or not the delineation of fiscal authority and responsibility between the central government and the localities is appropriate is one of the key links in our revolutionary fiscal management system. But it must be seen that socialist state-run enterprises are socialist production units owned by all the people. The tasks charted in the national economic plans must devolve upon the enterprises and national accumulation must be provided by the enterprises. For these reasons, expansion of the financial decision-making power of the enterprises should be a fundamental link in the reform of the system of fiscal management.

Our enterprises presently operate, in theory, on a system of independent financial accounting when, in fact, decision-making authority by the management of enterprises is very slight. Profits realized by the enterprises are handed over in toto to the state and deficits are made up by the state. All funds required for production are disbursed by the state except for a portion of depreciation expenses that the enterprises retain. Collective expenditures for the welfare of employees and rewards for employees come out of the cost of products according to a fixed proportion of total wages. When enterprises use state capital, they also have no economic responsibility. Though working to make up deficits and increase surpluses in state-run

enterprises has had definite results, a certain portion of the enterprises operate at a deficit and the size of the deficit figures is astounding. These constitute a heavy burden for the national exchequer and the economy. The reasons for enterprise deficits are numerous, but unified revenues and unified expenditures in the system of fiscal management, common messhalls, and little concern for economic effectiveness are all important reasons for the creation of large deficits in enterprises. If I were to say that we are going to reform the fiscal system today, requiring increases in production and increases in revenues in localities, then in enterprises I would emphasize more concern for production, more concern for accumulation, and a real strengthening of financial accounting.

How can decision-making authority for the management of enterprises be expanded? This is a rather complex problem with numerous implications that should be addressed step by step. The orientation should be toward the creation of conditions in enterprises for instituting a system of personal responsibility for surpluses and deficit and personal responsibility for management of finances. This accords with the requirement that economic methods be used to manage the economy. At present, when the price of many products still awaits equitable regulation and the tax code still awaits equitable reform, conditions are not right for the institution of a system of personal responsibility for surpluses and deficits and personal responsibility for the management of finances. As a first step, a method for allowing retention of profits might be considered.

The basic principle underlying retention of profits is to permit enterprises to use the profits they themselves realize to satisfy the needs of the enterprise itself in maintenance of simple production and partial expansion of further production. A concrete system would be for the enterprise to retain a fixed proportion of profits and to use these retained profits to set up three kinds of funds, namely a fund for the development of production, a fund for employees' welfare, and a fund for employee rewards. In order to stimulate increased production in enterprises and encourage thrift, to increase the productivity of labor, and to create enthusiasm for more profit, once the proportion of profit has been set, this proportion must remain stable for a period of time with frequent changes being inadvisable.

Generally speaking, implementation of a system of retained profits requires that the level of profits in the enterprise be, by and large, consistent with the effectiveness of management. At present, owing to differences in prices of products of enterprises, different conditions pertaining to goods and materials, and differences in technology and equipment, a wide disparity exists in profit levels from industry to industry and from enterprise to enterprise. This poses a conflict. For the moment this can be handled by formulating different proportions of funds to be retained by different industries and different enterprises. It can be imagined that once this system is instituted in an industry where conditions are fairly mature, other industries will zealously create conditions for its gradual extension.

Implementation of a system of profit retention will, to a large degree, link authority and responsibility in enterprises and link together the welfare of the nation, the enterprises, and the individual workers. It will spur workers individually to be more particular about financial accounting, to pay more attention to management matters, and to care more about the results of production and management.

After a system of profit retention has been instituted, all operating deficits incurred by an enterprise, except for deficits approved by the state as a matter of policy that are recompensed out of public funds, must be reversed within a fixed period of time. If they are not, they will not be made good out of public funds. Enterprises in which waste is high, quality shoddy, deficits large and where conditions do not favor continuation in business as that should therefore close, they should indeed close. Such action is in accordance with objective economic laws in doing things.

Additionally, economic techniques should be used when the fiscal management system of enterprises is reformed, but other measures may be adopted too—measures such as compensation for use of fixed capital and circulating funds, or the so-called system of payment for use of capital, and payment of interest. Enterprises that use land should pay land use taxes. The investment in capital construction at some enterprises that is currently made from public funds will gradually change into a method whereby banks extend credit. Enterprises that produce goods to earn foreign exchange revenue for the state may institute a system for sharing foreign exchange, etc.

The process of reform of the fiscal system is a complex process of revision requiring full investigation and study with the views of all sides being heard followed by repeated comparison of trial and error methods and a testing of models. Meanwhile, thorough reform of the system of fiscal management and the implementation of a level-by-level financial system must be premised on reforms in the system of economic management. Many problems that currently exist in the national economy must await reform of the system of managing the economy before they can be solved. For this reason, in reforming the fiscal system, there must be close attention to and close coordination with each sector of the national economy and a working in cooperation with them particularly in dovetailing the planning and materials management systems. Only in this way can the fiscal system be properly reformed and a universally vigorous development of all sectors and all links of the socialist economy be promoted.

## NATIONAL ECONOMIC POLICY

### 'JINGJI GUANLI' URGES COMMODITY FLOW BY ECONOMIC ZONE

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] No 4 in Chinese 25 Apr 79  
pp 11-15 HK

[Article by Yang Deying [2799 1793 4481]: "Respect Objective Laws and Organize the Flow of Commodities by Economic Zone"]

[Text] The flow of commodities has its objective law. Under the capitalist system, the flow changes as dictated by supply and demand. Ordinarily, it goes where the prices are high. This is determined by the law of competition and anarchism. Under a socialist system, socialist commerce is required to organize its flow of commodities by economic zone. This is governed by the law for developing the national economy proportionally and in a planned manner. In so doing, it would make commodities flow in a rational way, with the number of links to go through reduced, the speed of flow accelerated, the cost cut down, the service to the consumers facilitated, and the profit to the nation increased. Otherwise, there would be confusion in the flow of commodities, even obstacles to establishing normal economic relations, and ultimately a man-made economic blockade. This would then increase the volume of commodities in transit, cause more expenses, waste the nation's transportation forces and affect the people's livelihood.

Around 1 billion tons of commodities are transported each year by our trade and commerce departments. How to make commodities flow in a rational, timely, accurate, safe and economical way to reach the consumers constitutes an important problem in organizing the flow of commodities.

#### Historic Changes in Organizing Commodities Flow by Economic Zone

Since the founding of the nation, the flow of commodities has been organized in two ways--one according to economic zones and the other according to administrative areas. Generally speaking, it has undergone four stages:

In 1953, state-operated trade enterprises put into practice the "setting up of purchasing and wholesale stations to compute the value of capital." Later, first-level purchasing and supply stations (abbreviated as first-level stations) were established in the principal producing cities. Such stations were headed by a specialized head office and assisted by a



provincial (municipal) trade bureau. In larger producing cities and commodities transshipment centers, second-level purchasing and supply stations were put under the leadership of a provincial specialized company and assisted by a local trade bureau. In the county seats or major towns, specialized wholesale and retail companies or shops (generally third-level wholesale shops) were established. In this way, by 1957 around 200 second-level stations were found in about 100 cities throughout the country. In the contiguous areas between provinces and between counties, the supply of goods was organized basically according to the regular route of flow of commodities. This is the first stage.

From 1958 to 1962, the local commercial specialization companies were first abolished and merged into the commercial administrative organizations. At the same time, in many provinces and administrative districts, second-level stations were transferred down to the local commercial bureau. This resulted in a shortage of commodities and a critical supply and demand situation on the market. The commodities for wholesale stations had to be distributed and issued level by level according to administrative areas. At retail stations many commodities had to be supplied by coupons. Major items of farm and subsidiary produce could be obtained only by direct exchange, barter trading, or sales plus profit, with the peasants. Under such circumstances, second-level stations emerged in large numbers and by 1962 totalled 874. Then, the industrial goods were issued downward level by level according to administrative areas. The same is true with the farm and subsidiary produces when they were sent up. This was a general situation at the second stage. In May 1962, the State Council decided to restore the specialization companies at all levels. In September the same year, the CCP Central Committee announced the "Decision on the question of commercial work," with the request that the measures for the interarea supply of commodities be restored and the flow of commodities organized by economic zone. Meanwhile, the critical supply situation eased. This led the various localities to change their practice of regional restrictions. Interarea supply of commodities was again practiced in nearly 200 counties, and some grassroots supply and marketing stations also started intercounty purchases of goods. However, this reform was only regional. Taking the nation as a whole, the irrational flow of commodities was still very serious. Comrade Mao Zedong in January 1964 pointed out that commerce should break the bounds of the provinces, prefectures, and counties and work must be done according to economic channel. In January 1965, the State Council announced the experience gained by the Tangshan district in organizing the flow of commodities by economic zone, pointing out that it was an ideological revolution. As a result, the experience was promoted in 36 districts with good results. In January 1966, the CCP Central Committee and the State Council urged that the experience be more widely promoted in all localities. By this time, the organizing of flow of commodities by economic zone was restored throughout the country. This was the third stage.

By 1970, along with the change in the management system in the economic sectors, the commercial system was readjusted. The second-level stations

in most provinces and administrative districts were transferred down to be put under local (municipal) leadership. At the same time, second-level stations began to spring up widely in places where no such stations had existed. As a result, in one local district, one municipality and one county, there were two or three wholesale stations that overlapped, with the links of management greatly increased. In the past 8 years, this undesirable situation has changed in some provinces, but in the nation as a whole, due to the interference and sabotage of the "gang of four," the situation has existed ever more widely. Some counties which formerly made interarea purchases, began to follow the practice of making purchases in the administrative districts to which they belong. At present, there are more than 1,500 second-level stations throughout the country, almost double the figures of 1965 (some of the stations are rational). This situation causes a waste of manpower, slow turnover of capital, fighting among stations for sources of supply, and enforcing mutual blockades and making huge quantities of commodities move slowly or even flow back. This is the fourth stage.

Why has the nation's flow of commodities undergone such a shift back and forth? Apart from the interference of the incorrect line, the main reason is that the leaders in some places have been accustomed to economic management by following the "will of the chief officer" and the administrative method, to keep that the routine of their own district, their own system and their own department from being disrupted. For example, some people frankly admitted that "organization means power, power means goods, no organization means no power, and no power means no goods"; "if grassroots stations were abolished to make way for interarea purchases of goods, the local commercial departments would have little to do and make less money" and so forth. This is departmentalism and divisionism--paying attention only to the interest of a section and neglecting the interest of whole; caring for one's own convenience in disregard to the needs of the masses; counting on small benefits instead of large benefits. It is actually a huge stumbling block to the flow of commodities being organized by economic zone. The first change back and forth in 1958-1962 and the second change of this nature since 1970 all came as a result of maneuvering, for selfish purposes, by those who grasped the opportunity of readjustment and merging of commercial organizations in their fight for commodities and profits.

The problems described above were particularly conspicuous when the "gang of four" was in power and the losses and waste were very serious. It should be pointed out that these problems existed mainly in the leading departments. The grassroots commercial departments and the general masses all actively supported the idea that the flow of commodities should be organized by economic zone. They believed that otherwise they would have to get their supply from distant places, causing a waste of time and money in transportation and increasing the burden of the people, which would be of no benefit to either the nation or the people.

## The Advantages of Organizing the Flow of Commodities by Economic Zone

The restrictions enforced by administrative districts must be removed if commodities are to flow direct from their production centers to the market. This will make it possible for producing cities, towns or communication junctions to be supply centers, to keep in close touch with the surrounding districts and to supply commodities to the counties, administrative districts and provinces. Only in so doing will it be possible to open the road for commodities to be shipped in the shortest time, by the shortest route, at a minimum expense and with the least means of transportation.

When the flow of commodities is organized by economic zone, the cost will be reduced, the profits increased and the management of enterprises improved. Of course, there may be factors that cause increased costs in some instances. But when the flow of commodities is conducted according to administrative districts, all expenses will be increased. That means the various links--particularly the link for the flow of commodities to be organized by economic zone--must be fully grasped since the advantages will be much greater than any other link. A failure to understand this could lead to a series of covert irrational expenses and make any improvement impossible, thereby opening wide the door to wastage which might be claimed "rational."

Organizing the flow of commodities by economic zone is conducive transporting goods in a rational way. The various commercial departments of cities often have in transit commodities worth three billion yuan and the transportation costs each year reaches another three billion, accounting for 30 percent of the cost of the flow of commodities. The potential for economy is great. Rational transportation includes the use of packing materials, improved loading techniques, choice of transport, direct transportation via a direct line, "four direct" transfers (direct from the factory, direct from the railway station, direct from the wharf, direct from the warehouse), and so forth. Running a vehicle empty and making no unnecessary trips depend on a rational direction of flow. Only when the flow of commodities is organized by economic zone, will it be possible to bring about direct transportation by a direct route. This will increase the rate of use of vehicles and boats besides and cut transportation costs to a minimum.

When the flow of commodities is organized by economic zone, it will help fix a rational price differential for different localities. An irrational differential is often the result of an irrational flow when commodities have to go through too many links resulting in increased costs. For instance, retail prices of industrial goods at the grassroots supply and marketing stations are based on wholesale prices of county capitals, plus the price differential between town and countryside transportation and other costs and the wholesale-retail price differential. In this way, the more distant a supply and marketing station is from the city, the higher its prices. In some cases, the price at a station near a middle-sized



town or a railway line is even higher than that of a station far from a middle-sized town or railway line. However, if the flow of commodities is organized by economic zone, the price will be based on the wholesale price of a nearby city as the economic center. Moreover, the transportation line is short, the price at the supply and marketing station far from the city can be marked down, and the masses will pay less for industrial goods.

Another situation is that some districts, caring only for regional interest, do not organize the flow of commodities in a rational way. They follow the incorrect idea of raising the prices of neighboring districts in an attempt to restrict the normal outflow of farm and subsidiary produces. Some of the irrational price differentials can be eliminated if the flow of commodities is organized by economic zone.

#### Properly Handling the Relations of All Sides and Make Commodities Flow Smoothly Along Rational Channels

The relationship between a local party committee's unified leadership and organizing the flow of commodities should be well handled. The "gang of four" slandered the organizing of a rational flow of commodities as "dictatorship district by district," saying that "this practice is incompatible with the centralized leadership." This is obviously sheer nonsense. However, some of our comrades entertain the fear that this will jeopardize the unified leadership of the local party committee. They set the two things against each other, which is incorrect. As described above, this is a practice designed only to seek regional interest and neglect the overall interest. When commodities are organized by economic zone, it will help break some of the "taboos" and abolish or tidy up those wholesale stations set up by administrative district which tend to split up the market and change the relations between the leadership and the management in some cases. As wholesale units are set up by economic zone, the existing situation will of course be considered. The guidance, supervision and assistance of the local party committee should be sought so that work aimed at better serving production and the people's livelihood can be facilitated.

Interarea supplies of industrial goods should be well geared with the interarea marketing of farm and subsidiary produces. Under normal circumstances, industrial goods are sent down from towns to the countryside via the same route as farm and subsidiary produces are sent up from countryside to the towns. To this end, it is necessary for a district to follow a reasonable direction of flow when farm and subsidiary produces are sold and delivered to its neighboring district so that interarea supply and delivery can be geared closely.

Arrangements such as those described above will help facilitate work in organizing return freight traffic, save labor, reduce the load of transportation, cut down expenses and in turn consolidate interarea supplies.



The wholesale network should be established well in economic districts in order to set up wholesale stations. This is a guarantee for rationally organizing the flow of commodities between districts. When such stations are set up, the guideline of "development of economy, ensuring supply" must be strictly followed so that farm production, retail business and the people's livelihood may be well served.

It is essential to observe the principle of "unified planning but separate management by level" and meet the needs for economic accounting and reducing the number of links through which commodities flow, thereby avoiding overlapping structures. More importantly, the needs of the naturally formed economic centers should be given attention, with arrangements made as required by each district and trade. In general, second-level stations may, where necessary, break the boundary of administrative districts or even provinces. Similarly, third-level wholesale shops may break the boundary of communes or even counties. Commodities should be supplied to adjacent municipalities, counties or grassroots stations of supply and marketing, as rational flow of commodities and planning may require. The "cut by one stroke" inflexible method of setting up a wholesale structure is metaphysics and therefore harmful. Practice has shown that at the county level there is a need to set up third-level wholesale shops, but in a small county and in a place where the county and municipality are situated together, or in a county with a second-level station in its vicinity, there is no need for a third-level wholesale shop since a second-level station meets the needs.

It is necessary also to make the relations of the leadership and the various systems suit the demand that the flow of commodities be organized by economic zone. Second-level stations charged with the responsibility of inter-area supply should be led in most cases by the commercial department of a province. Contradictions exist between places where the flow of commodities is organized by economic zone and where it is organized by administrative district. To solve this, it is imperative to do well the work of interarea supply and transshipment of commodities. As to how the commodity prices should be fixed, it is necessary to have the prices of industrial goods based on those of a place where such goods are bought, whereas the prices of farm and subsidiary products should be based on those of the place of delivery. As for the method of delivery and purchase, the required standard and the prices set for farm and subsidiary products when interarea transactions are made should be fixed in as unified a way as possible.

CSO: 4006

## NATIONAL ECONOMIC POLICY

### PRC ECONOMIC JOURNAL DISCUSSES RESPONSIBILITY OF ENTERPRISES

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] No 6 in Chinese 25 Jun 79  
pp 11-14 HK

[Article by Lo Jingfen [5012 4737 1164]: "Enterprises Under the System of Ownership by the Entire People Can Assume Sole Responsibility for Their Own Profits and Losses"]

[Text] Can socialist enterprises assume sole responsibility for their own profits and losses? There are different views on this question in economic circles and in the actual working departments. A traditional viewpoint which has existed in our country for a long time advocates that assuming sole responsibility for one's own profits and losses is the product of the system of private ownership and that socialist enterprises under the system of ownership by the entire people cannot assume sole responsibility for their own profits and losses. In such enterprises, all economic activities should follow arrangements by the state, which represents the interests of all the people. The means of production belong to the state; thus, all or most of the profits should be submitted to the state and not left at the disposal of the enterprises. This viewpoint was once considered unalterable and unquestionable. According to this viewpoint, if the socialist enterprises under the system of ownership by the entire people assume sole responsibility for their own profits and losses, the nature of the enterprises will turn capitalist. Consequently, the assumption of sole responsibility by enterprises for their own profits and losses, mistranslated private plots and free markets were criticized even before the great cultural revolution.

To determine whether assumption of sole responsibility for one's own profits and losses, as a system of economic responsibility, would engender capitalism, it is essential to investigate the nature of the relations of production which it embodies. Socialist enterprises which assume sole responsibility for their own profits and losses under the system of ownership by the entire people must first make sure that they can fulfill the obligations laid down by the state and then allocate the remaining profits in accordance with the state decrees and the actual conditions of their own units and after democratic discussions by all the staff and workers. Under these conditions,

the system of the ownership of the means of production in the enterprises has not changed, or turned into private ownership. Activities of production and management are organized under the direction of state plans and in accordance with the common interests of workers in the enterprises. They are not arranged according to the individuals' will, nor do they purely start from the private interests of small groups. After contributions to the society, the surplus products created by the broad masses of staff and workers are shared by all the staff and workers according to the quantity and quality of their work, and are not pocketed by a handful of individuals or used to exploit other people. Therefore, it cannot be said that assuming sole responsibility for profits and losses by socialist enterprises under the system of ownership by the entire people would engender the system of private ownership and lead to the restoration of capitalism. This point has already been proved by the practice of the socialist enterprises under the system of collective ownership in our country. Enterprises of collective ownership assuming sole responsibility for their own profits and losses has not caused the disintegration of the collective economy. On the contrary, it has helped consolidate the system of collective ownership.

Enterprises under the system of ownership by the entire people can and should assume sole responsibility for their own profits and losses. In the final analysis, this is determined by the level of development of productive forces in the socialist society in the present stage. We all know that the level of development of productive forces in the socialist society and labor is still the means by which people make a living. This inevitably means that the products of the enterprises are still commodities and the activities of production and management in the enterprises are still regulated by the law of value under certain conditions. The enterprises must keep their accounts strictly, safeguard and increase assets that belong to all the people and guarantee that their income can offset their expenditures and that they can make profits. They must allocate funds to individuals for consumption in accordance with the quantity and quality of their work as indicated by the staff and workers. However, the allocation of funds for consumption to the staff and workers of enterprises under the system of ownership by the entire people is not only determined by the quantity and quality of the work of the individual workers, but also by their fruits of production and management in the enterprises. Therefore, enterprises under the system of ownership by the entire people must not only keep meticulous accounts and calculate the economic results of the activities of production and management, but must also assume sole responsibility for their own profits and losses, so as to ascertain the economic gains of the enterprises and the material well-being of the individual staff members and workers according to this computation.

At the same time, only through assuming sole responsibility for their own profits and losses can enterprises under the system of ownership of the entire people better handle the relations between the state, the collective and the individuals, so that the economic gains on these three sides can

be better integrated. After assuming sole responsibility for their own profits and losses, the enterprises no longer submit their profits to the state but pay only certain taxes and fees to the state. Such taxes and fees embody profits for the state. They represent surplus labor expressed in a monetary form which the workers in the enterprises supply to society, and are used as part of the national income to further expand production and meet the needs of society. These are the duties which the workers should fulfill for their country. The state leaves all the profits to the enterprises and strengthens autonomy in the operation and management of the enterprises so that the enterprises can, in accordance with the development of production and the needs of staff members and workers, adapt even better to the local conditions and rationally explore for resources, renovate, transform and expand the scale of production and construction, develop new products, build living quarters for the staff and draw up collective welfare plans. A certain sum can also be set aside and allocated to the staff members and workers to set up the system of dividend funds for the working people. Through fixing reasonable prices and adjusting the tax rates, the state has enabled different enterprises which manufacture different products to make generally equal, reasonable profits under normal management conditions. Under this condition, the lower the expenditure of labor an enterprise has, as compared to the average manpower (or cost of production) required in the society, the greater contributions it can make to the state and the more profits it can retain for its disposal. The enterprise can then embark on more construction and further improve the living of the staff and workers in its units. An improperly managed enterprise receives little income, makes no great contributions to the state and retains little profit for its disposal. It can then only carry out less construction and make fewer improvements in the living of the staff members and workers. Therefore, assuming the sole responsibility for their own profits and losses by the enterprises will further unite the interests of the state and the collective and the individual interests of the workers.

The assumption of sole responsibility for their own profits and losses by enterprises is an important prerequisite for managing enterprises with economic methods. After assuming sole responsibility for its own profits and losses, the enterprise has a new and greater internal driving economic force so that each staff member can start from his own material interest to show concern for the fruits of the management activities of the enterprise. In building socialism, it is necessary to have a driving political force and advocate greater contributions to the revolution and a high degree of responsibility towards the people. This political driving force is indispensable. However, in the present stage of socialism, mere political impetus can work only with a small group of advanced elements but not with all the workers; it can only work for a short time. Therefore, in addition to attaching importance to ideological education and reinforcing political work, there must also be an internal economic driving force to improve and strengthen the management of enterprises. If the enterprise does not assume sole responsibility for its own profits and losses, there are no direct links among the conditions of management in the enterprise,



the material gains of the enterprise as a collective and the individual workers. Then, no matter how perfect and thorough the economic methods are, they cannot easily be brought into play. For example, the construction capital is obtained from bank loans; after the construction projects are completed and put into operation, the principal and interest are repaid. Fixed assets are used to bring the utmost returns, the working capital consists entirely of credit funds, and so on. These are all undoubtedly good methods, and help the enterprises economize on the use of funds, and accelerate the capital turnover. If the enterprise does not assume sole responsibility for its own profits and losses, the principal and interests from the bank loans can be incorporated into the production costs or directly offset the profits submitted to the state. These economic measures cannot bring much progress to the enterprise. If the enterprise assumes sole responsibility for its own profits and losses, the loans and interests are paid from the profits retained for the enterprise; the amount of the loan and the interest paid will directly affect the gains of the enterprise and its staff members and workers. Only this economic method can bring into play the proper role of enterprises.

Furthermore, if the enterprises do not assume sole responsibility for their own profits and losses, there may be cases in which even good economic methods are not readily accepted by the enterprises. For example, at the beginning of this year, it was suggested that the capital required by the enterprises to explore resources and carry out renovation and reform projects should be paid for by loans from the bank instead of the allocation of funds as in the past. The principal and interest would then be repaid from the extra profits (not from the profits retained for the enterprises). Even though the interest rate was very low, this was rejected by many enterprises. There are also similar cases abroad. All this shows that if the enterprises do not first assume sole responsibility for their own profits and losses, there will be obstacles to the implementation of economic methods.

In addition, the assumption of sole responsibility for their own profits and losses by enterprises is a particularly effective method in eliminating the large number of perverse situations of not considering the actual economic returns and not assuming economic responsibility in the actual work in our country. Since labor which is used in manufacturing products of no use value cannot be turned into value and cannot bring profits for the enterprises, the enterprises are made to put variety and quality in first place and will not arbitrarily pursue the value and quantity of output. The enterprises will also give bonuses to the staff and workers who have made contributions to production and construction in the enterprises to encourage them to create more material wealth for the enterprises and for the state, thus preventing the indiscriminate award of bonuses. In the market, the enterprises, as producers of commodities, carry out economic transactions and establish economic ties with one another. After the assumption of sole responsibility for one's own profits and losses, it is possible to develop socialist competition among the enterprises, stimulate

the enterprises to develop new products with unflagging efforts, develop science and technology, increase labor productivity, improve the quality of services and serve the consumers better. Moreover, the assumption of sole responsibility for their own profits and losses by enterprises will also help to eradicate the issuing of blind orders, because at this time blind orders, whether within the enterprises or from higher authorities, will be boycotted by the masses of staff members and workers in the enterprises, since they will cause economic loss to the enterprises.

Undoubtedly, there must be certain economic conditions before enterprises under the system of ownership by the entire people can assume sole responsibility for their own profits and losses. The state must adopt the corresponding economic measures so that the amount of profits made by the enterprises, the effectiveness of the production and management of the enterprises and the amount of contributions to the state are in line with each other. Therefore, it is first necessary to properly adjust the prices. I think that the prices of a small number of products can appropriately depart from their value. However, the prices of most products should be as near as possible to their real value (or production costs). In our country at present, the prices of raw industrial products such as coal and timber tend to be low, and the prices of industrial mechanical and electronics products and certain processed industrial products tend to be high; these need to be properly adjusted. Price adjustment is a very complicated task; it should be actively and prudently carried out. Next, it is essential to reform the tax system. The single integrated industrial and commercial tax (which is in fact the product tax) now existing in our country cannot effectively regulate the profit margin. Therefore, the tax system should be reformed. For example, in addition to collecting product taxes on certain commodities with high prices (such as cigarettes, alcohol, cosmetics and luxury goods, high class consumer goods), it is also necessary to collect resource taxes in accordance with the availability of natural resources. It is necessary to collect specific property taxes in accordance with the different standards of technical equipment installation. If the enterprises occupy state land or have an exceptionally favorable communication and geographical location, land tax should also be collected. Finally, income tax should be levied in accordance with the different profit margins attained by the enterprises. Through adjusting the prices and the taxation system, different trades and enterprises which manufacture different products with the same standard of technical equipment installation and the same level of operation and management can strive to attain roughly the same profits.

However, it must be pointed out that it is not easy to adjust the profits of the enterprises to a roughly equal level all at once. It is difficult to fully make allowances for the various factors affecting profits in advance. Therefore, the profit retention system can first be implemented as a transitional measure. Income tax is first submitted to the state in the form of portions of profits. After several years of practice and several adjustments, the proportion of the profits submitted is gradually stabilized. The portion retained can more realistically reflect whether

the management of the enterprises is good or bad, and can also meet the requirements of the enterprises in developing production, improving the welfare of the staff and workers and raising their living standards. At that time, the proportion of profits given to the state only needs to be changed into the income tax rate and it is relatively easy to change the profit retention system into the income tax system.

After assuming sole responsibility for their own profits and losses, the enterprises will decide by themselves what to produce and the quantity of goods to be produced. They can choose their own clients in the supply of raw materials and the sale of products. It is difficult for enterprises to assume the responsibility of losses if everything is still forcibly laid down by the higher authorities. Thus it is also necessary to reform the systems of planning and of managing materials accordingly so that they can meet the requirements of the enterprises in assuming sole responsibility for their own profits and losses.

Will the assumption of sole responsibility for their own profits and losses by enterprises under the system of ownership by the entire people bring any undesirable effects to the development of the socialist economy? It will certainly bring some new problems. For example, some enterprises might engage in unscrupulous profiteering, reap profits at the expense of others, force up prices, evade taxes and even sabotage the socialist planned economy. These problems need to be resolved by such measures as strengthening political and ideological work, setting up strict financial supervision, bringing the role of the bank into play and adopting economic legislation and judicature. We believe that as long as the work is properly carried out, it is not difficult to prevent and rectify the corrupt practices which might be brought about by the assumption of sole responsibility for one's own profits and losses. This is not subjective speculation and inference but can be illustrated by historical facts. Five kinds of economic sectors coexisted during the period of the revival of the national economy and the first five-year plan in our country. Although capitalist industry and commerce and individual producers assumed sole responsibility for their own profits and losses, we adopted the correct policies and appropriate channels so that they were fit into the orbit of a planned economy in different forms. Consequently they developed their active role which was beneficial to the national economy and the people's livelihood, and restricted their passive role. Since we could guide these nonsocialist economic sectors to serve socialist construction in the past, we can certainly lead the enterprises assuming sole responsibility for their own profits and losses under the system of the ownership of the entire people to serve socialism and bring into play their active role in accelerating socialist economic development and realizing the four modernizations in the new historical period.



## NATIONAL ECONOMIC POLICY

### PRC ECONOMIC JOURNAL DISCUSSES INCOME OF STAFF IN ENTERPRISES

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] No 6 in Chinese 25 Jun 79  
pp 18-19 HK

[Article by Wang Zhenshu [3769 2182 3219]: "The Income of Staff and Workers Must Be Directly Linked With the Achievement of Enterprise Management"]

[Text] There is much discussion on how to reform the present economic management system so as to fully mobilize the initiative and enthusiasm in improving the economic results of production management in the enterprises. One opinion is that it is necessary to strengthen the material responsibilities of the enterprises for the economic results of production management and change the present state of affairs in which the enterprises find themselves in the same situation no matter whether they operate well or badly, and do not assume economic responsibility for the economic results in production management. Strengthening the economic responsibility of the enterprises is a crucial question in the reform of the system of economic management. Only through strengthening the economic responsibility of the enterprises is it possible to achieve greater, faster, better and more economical results in developing socialist economy. The direct integration of the socialist public ownership of the means of production with the workers and the means of production has turned the workers into the owners of the means of production. It is necessary to make use of the means of production to manage production and assume full responsibility for the economic results of production management at the same time, according to the common interests of the workers. The integration of this power and responsibility represents objective requirements in socialist public ownership. Nonfulfillment of these requirements will bring serious damage to the economic life.

How can the enterprises be made to assume practical, economic responsibility for the economic results of production management? The practical economic workers and the economic theorists have suggested many methods. For example, in order to make the enterprises assume economic responsibility for the economic results in the use of funds, a method has been suggested to use funds in such a way as to bring the utmost returns. In order to



consolidate the discipline of contracts, a method has been proposed to impose fines on violators of contracts. In order to improve the economic results in the investment in capital construction, a method has been put forth to use loans in capital construction instead, and so on. All these suggestions are acceptable. However, we do not think that we can really strengthen the economic responsibility of the enterprises just by implementing these methods, because the present distribution system of the financial achievements of production management in the enterprises is still a supply system. All profits made by the enterprises are surrendered to the state. The state guarantees all provisions for the wages of the individual staff members and workers and meets the requirements of collective welfare in the enterprises. No matter whether there are profits or losses in the management of the enterprises, the workers receive the same wages, and the collective welfare is no worse than that in other enterprises. Under these conditions, although the adoption of methods of collecting fees from the enterprises for the capital they use and imposing fines for the violation of contracts affects the amount of profits made by the enterprises, this only means that part of the profits made by the enterprises are surrendered to the state in the form of interests or other fees and does not affect the individual gains of the staff and workers in the least. In this way, the assumption of economic responsibility by enterprises is only empty talk. We have implemented the system in which all the working capital consists of credit funds and imposed interests on the working capital used by the enterprises, in an attempt to make the enterprises assume certain economic responsibility for the results in utilizing the working capital in their possession. However, in actual fact, the enterprises have not really assumed the economic responsibility, and this method has not become the force motivating the enterprises to study and perfect the economic results of the utilization of funds. The reason is that this has not directly integrated the economic results of the utilization of funds with the economic gains of staff and workers in the enterprises.

The basic method to make enterprises really assume economic responsibility is to directly integrate the economic gains of staff and workers in the enterprises with the economic results of production management in the enterprises. The so-called economic responsibility refers to actual material responsibility. Good economic results in the production management of enterprises will bring more material gains for the staff and workers in the enterprises. The material gains will be lessened if the reverse is true. Only in this way will the assumption of economic responsibility acquire real substance and bring into play its proper role. Certainly, in order to strengthen the sense of responsibility of the enterprises, we cannot merely rely on economic gains, but must also strengthen ideological and political work. The socialist public ownership of the means of production determines the unity of the entire interests of the society and personal interests of the workers in the enterprises and makes it possible and necessary for the workers to consciously work hard and make more contributions in pursuit of common interests. Therefore, in carrying out socialist construction, we must advocate making more contributions for the revolution and not working

for personal fame or gain, advocate a high degree of responsibility toward the people and making conscious efforts to improve the economic results of production management. However, politics are the focal expression of economics; political impetus must also be integrated with economic gains before it can play an important role and become a great force in economic management to motivate the enterprises and workers to work selflessly for improving the economic results in production and management.

The key in directly combining the economic results in production management in the enterprises with the material gains of the staff and workers in the enterprises is to implement a comprehensive economic accounting system so that the enterprises can assume sole responsibility for their own profits and losses and manage their own finances. Many measures must be adopted in this respect, and an important measure is to directly link the personal income of staff and workers (including the plant superintendent and secretary of the party committee) with the economic results of production management in the enterprises and change the present equalitarian method by which the personal income of staff and workers remains the same whether the production management in the enterprises is good or bad. Therefore, I think that wages should be divided into two parts: Fixed and variable. Fixed wages are given to each worker as the remuneration for his labor in completing the day-to-day production and management activities and are incorporated into the production costs of goods in the enterprises to guarantee that the basic needs in the livelihood of the staff and workers are met. These are not affected by the amount of profits made. Variable wages are linked up with the effectiveness of the management of the enterprises. These wages are not included in the production costs and are paid out of the net profits of the enterprises. The amount of variable wages changes according to the amount of profits made by the enterprises. The amount of profits made by the enterprises and the labor quality of the workers themselves will affect the amount of such wages received by the individual workers. There are more variable wages if the enterprises make great profits and the labor quality of the workers is high, and there are less variable wages if the situation is reversed. If the enterprises do not make profits, the staff and workers will not receive variable wages. While this method is implemented, the interest or fees for funds used by enterprises or contract fines are all paid out from the profits of the enterprises. If the enterprises attain poor economic results in capital utilization and use a lot of funds, they naturally pay large sums of interest. This will reduce the net profits of the enterprises and thus lower the actual income of staff and workers. On the contrary, if the enterprises attain good economic results in capital utilization and use little capital, they pay less interest and this will increase the personal income of the staff and workers. Only this can genuinely and directly link up the material gains of staff and workers in the enterprises with the economic results of production management and enable the enterprises to genuinely assume economic responsibility for the economic results of production management.

In order to implement these methods, it is also necessary to adjust the prices, so that the prices tally with the value of the products as far as possible. Meanwhile, it is necessary to bring into full play the regulative role of tax collection, properly adjust the income of different enterprises and rule out the increases or decreases in profits in the enterprises that are not attributable to causes inherent in the enterprises, so that the profits in the enterprises can more accurately reflect the conditions of production management in the enterprises.

The implementation of these methods cannot only make the enterprises genuinely assume material responsibilities for the economic results of production management and thus motivate the enterprises to improve the conditions of production and management with unflagging efforts, but can also change the chaotic conditions under which the various enterprises find themselves in the same situation whether they operate well or not and "eat rice from the cooking pot." At the same time, this method can greatly simplify the system of "distribution to each according to his work," incorporate the various existing rewards into the variable wages, and reduce the many contradictions in giving and evaluating rewards. Since the effectiveness of the management of enterprises is directly linked with the personal interests of all the staff and workers, it is good for everybody if the enterprises make large profits, and everybody will suffer losses if there is less profit. This will strengthen the unity of the staff and workers, and the solidarity of the higher and lower levels, so that they can exert themselves to do a good job in production and management.

Some comrades fear that the implementation of these methods will cause the problem of the imbalance of joys and sorrows. I think that it is necessary to see what situations the imbalance of joys and sorrows refers to. We must certainly oppose it if it refers to the situation where the staff and workers do not receive the same economic gains even though their contributions are the same. However, as long as we make full use of the economic measures of prices and taxes to regulate the income of the enterprises and rule out the increases or decreases in the profits in the enterprises not attributable to causes inherent in the enterprises, this phenomenon of the imbalance of joys and sorrows can be completely eliminated. As for the differences in the income of the individual workers caused by the different efforts and contributions of the enterprises, I think that such differences are normal and are precisely the manifestation of the implementation of distribution to each according to his work. Owing to the different management and operating conditions and the different achievements in the work of the staff and workers, different enterprises also make different contributions to the society. The material gains of the staff and workers should then also be different. This condition cannot be called an imbalance of joys and sorrows. The situation is really one of the imbalance of joys and sorrows if the staff and workers get the same economic gains even though they make different contributions, and if it makes no difference whether they work well or not.

At present, the economy in our country is still being adjusted and does not possess conditions for implementing these methods all at once. As a transitional method, it is possible to temporarily implement the system of profit retention in the enterprises, and retain part of the profits for the enterprises according to a certain ratio to be used as the funds of the enterprises in developing production, welfare funds and premium funds for staff and workers. In this way, the conditions of collective welfare and rewards for the staff and workers in the enterprises are determined by the effectiveness of the management of the enterprises and the amount of profits retained. This method can initially combine the interests on the three sides--the state, the enterprises and the staff and workers--so that the economic results of production management in the enterprises are integrated with the material gains of the staff and workers to a certain extent, thus motivating the enterprises and the staff and workers to strive to improve the economic results of production and management. Certainly, as seen from past experiences, such methods have their limitations. The main defect is that the integration of the responsibility for economic results with the material gains of staff and workers is not tight enough, and still does not conform to the objective requirements in implementing the system of economic accounting on a full scale. Therefore, in the course of implementing the method of profit retention, we must strive to create conditions, make preparations for the enterprises to assume sole responsibility for their own profits and losses, and manage their own finances, and comprehensively and directly integrate the economic results of the enterprises with the material gains of the staff and workers and render efforts towards full implementation of the system of economic accounting.

CSO: 4006



## NATIONAL ECONOMIC POLICY

### PRC ECONOMIC JOURNAL ON INDUSTRIAL MANAGEMENT

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] No 4 in Chinese 25 Apr 79  
pp 62-64 HK

[Article by Li Xianpei [2621 6343 3099]: "Fundamental Function of Enterprise Management"]

[Text] Enterprise management is the management of the various kinds of production and administration activities carried out within an enterprise. Owing to the differences in the nature and size of enterprises, the details of management of one enterprise may not be the same for another. However, generally speaking, enterprise management should include the following basic functions:

#### 1. Policymaking and Planning

Policymaking is the first important and basic function of enterprise management. Whether a policy is correctly made will have a decisive effect on the success or failure of an enterprise. When we say policymaking, we mean chiefly the choice and the decision to be made concerning the long-term or short-term objectives of an enterprise's struggle and the important problems in achieving these objectives. These problems are of a strategic nature to the whole enterprise. As to dealing with the specific problems which occur in daily production activities, though they also "need to be resolved to do anything," these require only some on-the-spot guidance or adjustment. They should not be mixed up with the importance of policymaking. For instance, the orientation of productive forces of an enterprise is a very important question that requires a policymaking decision. In the capitalist countries, the orientation of productive forces of an enterprise is decided by the capitalists or their agents based on outside orders for goods and the forecast of market conditions. Under the socialist system, it has to be decided by the state in accordance with the unified plan fixed on the basis of the needs of the society. Of the "five decisions" mentioned in the "30 articles for industry," the first one is "to decide the orientation of products and the scale of production." However, the product orientations decided by the state can only be relatively broad and general. Given these broad production orientations, it is often necessary to fix

again the details of the exact kinds, specifications, and design and color of the products. To do this requires each enterprise to make choices and decisions according to the needs of society and the conditions of the enterprise itself. In addition to product orientations, there are also many other important problems that require an enterprise to make proper choices and decisions. If these problems are not satisfactorily settled, it creates a widespread haphazard approach in the management work of an enterprise and possibly could also cause great losses to the state. With the expansion of autonomy that the enterprises will have from now on, there will be more problems which need to be solved by the enterprise, and therefore the issue of policymaking will be even more important than before. But at present, some of our leading personnel in the enterprises are busy all day long dealing with the routine matters and often do not grasp major policymaking issues. Given the need to raise management standards, this practice is extremely unwise. Comrade Mao Zedong has said many a time that "the more decisions you attempt to make, the better you will be at making them." Making decisions means policymaking. You have to do this often to become good at it. To attempt more decisions means you must penetrate reality, go deeply among the masses, investigate and do research, seek truth from the facts, develop a democratic style of work, and draw on collective wisdom and absorb all useful ideas. Doing things without planning or without making judgments or judging things at will without proper planning does not conform with the demands of basic functions of policymaking in enterprise management.

When the policy of an enterprise is correctly determined, it is necessary to fix comprehensive and detailed plans based on this policy before it can be used to direct the production and administration activities in the enterprise. Planning is therefore another important basic function of enterprise management. If this basic function is ignored, the whole enterprise will fall into chaos. Only under the guidance of a good plan, is it possible to organize the various aspects of work in an enterprise into an organic entity so that its members will fight in coordination and establish a proper production order. Otherwise they will only do the fighting in complete confusion. In recent years in China, due to the destruction caused by Lin Biao and the "gang of four," and also because of the defects and mistakes we made in our work, the whole national economy fell into a state of semi-anarchy. Many enterprises have practically been in a state of half planning or even no planning and have not even been able to practice scientific management. The only way we can bring order out of chaos is to restore and strengthen the planning function of enterprise management.

## 2. Organization

Organization is also a basic function of enterprise management. By organization we mean that all the factors, links and aspects of production, following the principles of division of labor and coordination in working, based on the interrelationship among the people of all ranks and on the mutual

connections between time and space are rationally put into an organic entity and the whole enterprise runs like a "big machine." This "big machine" will include all the human and material elements and the environment. We then do our best to combine the human and material elements under a certain environment to bring their merits and abilities into full play. To a certain extent, the standard (high or low) of organization will directly determine the result of production and administration activities of an enterprise.

To properly fulfill the organization function of enterprise management, the following three problems must be solved effectively:

1. Good management system must be established within the enterprise in accordance with the principle of democratic centralism, including the set up of a management structure, the distribution of duties and powers and a strict responsibility system. This will develop the initiative of various management links and functional departments at all levels and also establish and strengthen the financial auditing system.
2. Fully develop the merits of socialist coordination in production, establish a production structure with advanced technology, economic rationality, overall arrangement and a high degree of professionalism, minimize labor waste and cut down on the use of land, material and funds.
3. Jobs must be properly assigned to management personnel, technicians and laborers at all levels in the enterprise so that they will have an appropriate position and their skills and capabilities will be fully utilized for the enterprise.

### 3. Direction and Arrangements

Without unified direction and arrangements, this "big machine" of an enterprise, though organized, will not be running properly and efficiently. Just like an ordinary machine which needs to be controlled by a worker, directing and arranging are the indispensable measures to ensure the smooth running of the production activities in an enterprise. So long as production is being carried out, there is always a need for direction, arrangements and adjustments of production.

Modern industrial production demands high technology, complicated divisions of labor and coordination among workers, rapid speed, strong continuity, close linking and mutual checking. Thus sometimes one small hitch will affect the entire operation. Therefore, the unified command of an enterprise and the logistics personnel in the rear must have a high degree of authority to command the people's obedience and to ensure that orders and instructions will be carried out to the letter.

At present, many of our enterprises still have not been able to establish a highly centralized unified command. Because they lack a unified production command system under the leadership of a factory head, the production

structure is usually not very sound. As a result, the administrative personnel do not have the proper authority and find difficulties in directing and arranging production affairs. In some enterprises, the party with party committees, standing committees, and enlarged committees act in place of administrative personnel and carry out the daily directing and arranging work. These committees usually do not make any decisions after their discussions or do not carry out their decisions. Inside the enterprises, several feudal lords coexist who do what they like independently and separately. It is not possible to have good enterprise management if this unsatisfactory situation is not fundamentally changed.

#### 4. Educating, Supervising and Encouraging

An enterprise as a "big machine" also needs energy to run, and the "source of energy" of an enterprise exists in the great mass of staff and workers. Therefore the enterprise management must educate, supervise and encourage the staff and workers to constantly promote their enthusiasm in production.

By education, we chiefly mean political education to arouse and heighten the awareness of socialism among the masses and insure the real success of political instruction. However, ideological education is not omnipotent and should be complemented with the supervision and encouragement of the people. To do supervising work well, it is necessary to have strict rules and regulations, clear and exact duties, complete and perfect standards and norms, iron discipline, systematic checking and accurate auditing. Supervision in the capitalist countries is the means to control the workers. Enterprises under socialism have abolished the exploitation of workers but this does not mean that a factory needs no supervision of its workers. Lenin pointed out long ago that statistics and supervision are the necessary conditions for the construction of socialism. What we mean by supervision is not only the supervision from the higher level over the lower level, but also the same from the lower level over the higher one. In other words, it is the mutual supervision among the leading cadres, management personnel and ordinary workers, completely based on the principle of equality.

When we talk about supervision, we must also talk about encouraging the people at the same time; otherwise with supervision alone it will not be possible to achieve an ideal result. To encourage is to reward on the positive side and punish on the negative side, rewards as the principal means. Only when you have rewards and punishment, and one is strict and fair in meting out rewards and punishment, will one be able to support the good and eliminate the evil. Encouragement is both spiritual and material. These two types of encouragement must be complementary and neither should be overemphasized at the expense of the other.

The ultimate purpose of educating, supervising and encouraging is to fully arouse the workers' enthusiasm in production which is the most basic function of the enterprise management in the socialist system. After all,



enterprise management cannot be divorced from the human and material elements which are closely connected and coexist. However, their functions should not be placed on a par with each other, since man always performs the leading role. Marxism holds that within certain materialist conditions, man is the energy factor that fulfills the decisive function in production. Even the best machine is made by man and is always mastered and controlled by him. Even some management experts and scholars among the capitalist class accept this view. In the capitalist management science, there is a school of thought called "behavioral science" which mainly emphasizes the role of man. Because of the rapid development of science and technology, the efficiency of machines becomes greater and greater. Many kinds of automatic machines are now more ingenious than ever before. Even robots that possess some artificial intelligence have been invented. Some people think that man's importance is decreasing. But in fact, this is just the opposite. When productivity is highly developed, man's function becomes greater in controlling modern technology. Without man's energy, the function of modern technology can never be fully fulfilled and no satisfactory economic results will be achieved. This is one of the important reasons why the complete sets of machines and equipments we have imported from abroad did not give us the same high efficiency they do in other countries. Some shrewd capitalists abroad are now trying to promote production enthusiasm among their workers, even by cheating and roping in. However, they call it "raising morale." If they must lure workers to be enthusiastic in production through supervision and encouragement even in the capitalist countries, and regard this as an important aspect in their enterprise management, then promotion of enthusiasm among the masses of staff and workers in our socialist enterprises should be of even greater significance.

Therefore, the first essential task in socialist enterprise management is to give full play to the superiority of the socialistic economy, and through the wider application of the principle of democracy and the realization of material benefits, to mobilize actively the enthusiasm of the masses of workers for production.

These four aspects are the basic functions of socialist enterprise management. Through policymaking and planning on the clear and correct objectives of an enterprise, and through organization to fix the ways and means to realize the decided objectives, the whole enterprise will become a harmonious "machine"; then through directing and arranging to ensure an orderly running of the enterprise and through educating, supervising and encouraging to promote the enthusiasm among the great masses of staff and workers, the energy needed to run the enterprise as a "big machine" will forever be supplied without exhaustion. Therefore we say that these four basic functions of socialist enterprise management are unified in nature, mutually dependent and must all be present.

## NATIONAL ECONOMIC POLICY

### PRC ECONOMIC JOURNAL ON RELATIONSHIP BETWEEN POLITICS, ECONOMICS

Beijing JINGJI YANJIU [ECONOMIC RESEARCH] No 6 in Chinese 20 Jun 79  
pp 33-38 HK

[Article by Zhao Guoliang [4480 6010 3070]: "Politics and Economics Are the Unity of Opposites--Conferring With Comrade Lin Zhili and You Lin on the Question of Relations Between Politics and Economics"]

[Text] JINGJI YANJIU No 1 of 1978 published an article by Comrades Lin Zhili and You Lin entitled "On the Relationship Between Politics and Economics," (hereafter referred to as "On the Relationship"). The article refuted the fallacies put forward by the "gang of four" that politics determines and does not serve economics. After studying this article, I have been very much enlightened. However, I still feel that certain questions need further discussion. For instance, under the premise of accepting the primacy of economics, is it possible also to accept that, under certain conditions, politics may in turn determine the development of economics? The purpose of discussing this problem is to acquire a more thorough and precise understanding of the basic Marxist viewpoints on the relationship between politics and economics. This facilitates further exposure and criticism of the reactionary nature of the various fallacies spread by the "gang of four" concerning this problem and the sophistry they employed.

Under the Premise of Accepting the Primacy of Economics, Is It Possible To Accept That, Under Certain Conditions, Politics May in Turn Determine the Development of Economics?

The article "On the Relationship" gives an in-depth criticism of the reactionary fallacy advocated by the "'gang of four' that politics determines the nature and direction of the development of economics, business and technology." For the "gang of four," politics was primary and of the first nature whereas economics was derived and of a secondary nature. The "gang of four" put forward the nonsense that "during the whole historical stage of socialism, the relations of production and the superstructure rather than the productive forces and economic base play the principal and decisive role. This fundamentally repudiated the principle that the productive forces play the ultimate and decisive role in the process of historical development. This is historical idealism through and through.

However, while the article "On the Relationship" tried to explain positively the general Marxist principle concerning the dialectical relationship between politics and economics, it failed to mention the decisive role of politics on the development of economics under certain conditions. On the contrary, from the various examples listed by the author, (that is, on the establishment of the capitalist economic system, the emergence of the socialist economic system, our socialist transformation of agriculture, and the backsliding of the Soviet Union from socialism to capitalism and so on), it gave the impression that the author believed that, in any sense, politics is "absolutely incapable" of determining the development of economics. This certainly leaves much room for discussion.

In his article "On Contradictions," Comrade Mao Zedong proposed that the opposite aspects of a contradiction will inevitably transform themselves into each other under certain conditions. He pointed out that: "Some people think that this is not true for certain contradictions. For instance, in the contradictions between the productive forces and the relations of production, the productive forces are the principal aspect; in the contradiction between theory and practice, practice is the principal aspect; in the contradiction between the economic base and the superstructure, the economic base is the principal aspect; and there is no change in their respective positions. This is a mechanical materialist conception, not a dialectical materialist one. It is true that the productive forces, practice and the economic base generally play the principal and decisive role; whoever denies this is not a materialist. But it must also be admitted that under certain conditions, such aspects as the relations of production, theory and the superstructure in turn manifest themselves in the principal and decisive role. When it is impossible for the productive forces to develop without a change in the relations of production, then the change in the relations of production plays the principal and decisive role.... When the superstructure (politics, culture and so on) obstructs the development of the economic base, political and cultural changes become principal and decisive." ("Selected Works of Mao Zedong," "On Contradictions," Vol 1, pp 335-336) Is it not very clear that the "change" in the relations of production has a determining effect on the "development" of the productive forces? Is it not plain enough that the "change" of politics plays "a principal and decisive role" in the "development of the economic base?" Therefore, we believe that these words of Comrade Mao Zedong have clearly explained that within the pair of contradictions consisting of politics and economics, politics under certain conditions may "in turn manifest itself in the principal and decisive role." That is to say, politics determines the development of economics. Therefore, it has repudiated the opinion that under any premises or conditions, politics is absolutely incapable of determining the development of economics.

Why is it necessary to agree that under certain premises and conditions, politics determines the development of economics? We must do so because politics and economics are a unity of opposites. As opposite aspects, politics is different from economics. They have their special features and



special laws of motion and are mutually irreplaceable. They should not be regarded as identical. In concrete terms, economics is the foundation whereas politics is the concentrated expression of economics. As the foundation, economics is of the first nature and therefore primary. Man has to attend to his needs for food, drink, shelter and clothing before he can engage in political activities. Without economic activities, humanity cannot survive and develop. Therefore, the primacy of economics is absolute and unconditional. Economics should not be regarded as of secondary nature under any circumstances. Similarly, politics as the concentrated expression of economics embodies the long term, basic and overall interests of classes. Therefore, with regard to economics, politics is in command and occupies the principal position. Under any circumstances, politics should not be said to be under any command. Doing so implies that the general economic interests of the classes overrule their long term, basic and overall interest. This, in actual facts, repudiates the fact that politics is the concentrated expression of economics. This kind of opposite relationship between politics and economics, as in the case of the opposite relationship between matter and consciousness on the problem of which is of the first nature, is absolute. But, there is another aspect to the relationship between politics and economics. That is, they are interdependent, pushing each other forward and, under certain conditions, transforming into each other. This kind of mutual transformation certainly cannot be understood as a transformation connoting which is of the first nature and which is in command. It can only be, as Comrade Mao Zedong said, a transformation of their respective positions within the contradiction. For instance, during the high tide of the socialist transformation of the means of production the main emphasis of our work naturally converged on the socialist revolution on the economic front. When this task was basically accomplished, Comrade Mao Zedong put forward the timely suggestion that "our basic task has been changed from one of liberating the productive forces to one of protecting and developing them under the new relations of production." This is a concrete example of how politics and economics are transformed into each other with regard to the problem of which one should occupy the principal aspect of a contradiction. Thus, the movement of the unity of opposites between politics and economics can occur under the following situation: When economics occupies the principal aspect of the contradiction, the element of the first nature will be identical with the principal aspect of the contradiction, whereas the commanding element will be different from the principal aspect of the contradiction; when politics occupies the principal aspect of the contradiction, the commanding element is identical with the principal aspect of the contradiction whereas the element of the first nature is not identical with the principal aspect of the contradiction. This is a common place and not a phenomenon in the process of revolution and construction. Among the two situations, the first one is more common and general while the second is typical of when the social economic system is undergoing fundamental changes. The actual progress of history is brought about by the movement of the contradiction between absolute opposites and the relative identity of politics and economics. Among them, identity is relative and opposites are absolute. They coexist in the



identity which penetrates the whole process of the movement of contradictions from beginning to end. To illustrate this point, let us analyze the examples used in the article "On the Relationship." For instance, the proletarian revolution is naturally a result of the movement of contradictions between the relations of production and the productive forces of a capitalist society. In the last analysis, it is determined by the development of productive forces. The development of productive forces not only determines the old relations of production destined to be changed but has also created the material prerequisites for such changes, thus digging the grave of capitalism. In short, economics is of the first nature and is the primary and ultimate determining force. However, in addition to the movement of contradictions between the productive forces and the relations of production, there coexists another basic social movement of contradictions which interacts with it. That is, the movement of contradiction between the superstructure and the economic base. From this we find out that even though the capitalist relations of production have become a fetter to the further development of the productive forces and the death toll of capitalism has been sounded, the capitalist relations of production have not and will not leave the stage of history by themselves. The demand for the liberation of the productive forces has not yet been satisfied. Why? What is the reason for the continued existence of the capitalist relations of production (although they have received their "death penalty," they still continue to exist)? Is the element of the first nature, the development of the productive forces, not yet mature enough to call for a higher economic form? Obviously, this is not the case. The fact is that the superstructure of capitalism, that is, the continued existence of the state and the army which try their best to defend their economic foundation, use reactionary violence to suppress the proletarian class. Under such historical preconditions, the use of revolutionary violence to smash the old state machinery, seize political power and establish the political regime of the proletariat has become the determining force for accelerating the death of the capitalist relations of production and for the emergence of the socialist relations of production. Revolution by violence is the general principle of proletarian revolutions. Instead of rejecting the determining effects of politics, the primacy of economics here even demands them. At such a juncture of the revolution, politics has in turn manifested its principal and decisive role. This does not deny the primacy of economics; on the contrary, it has transformed the inevitability of the economic movement into a reality.

Furthermore, on the socialist transformation of agriculture, Comrade Mao Zedong said, "under socialism, private peasant ownership is transformed into the public ownership of socialist agriculture.... There is a bridge leading from private property to public property, which in philosophy is called identity, or transformation into each other or interpenetration." ("Selected Works of Mao Zedong," "On Contradictions," Vol 1, p 304) The socialist transformation of agriculture is a profound revolution for realizing such a transformation. It must here be affirmed that the socialist transformation of agriculture is the objective demand of the development of

the social productive forces. Without such demand, no matter how immense a force may be, it is still incapable of moving 500 million peasants onto the road of collectivization. In addition, the various stages experienced in the collectivization of agriculture in our country are determined by the varying degree of development of the productive forces at the time. This has carried through the Marxist principle of economics as the primary and ultimate determining force. But in the meantime, a Marxist also holds that the socialist transformation of agriculture is an intense and rigorous class struggle. In his "Note to 'A Serious Lesson,'" Comrade Mao Zedong pointed out that "political work is the lifeblood of all economic work. This is particularly true at a time when the social and economic system is undergoing fundamental change. From the start, the agricultural co-operative movement had been a severe ideological and political struggle. No cooperative can be established without going through such a struggle." ("Collected Works of Mao Zedong," "Note to 'A Serious Lesson,'" Vol 5, p 260) That is to say, even under the precondition that the objective economic development has come to a point to call for collectivization, no cooperative "can be established" if there is no proletarian political influence and no grasping of the two-road struggle.

In this sense, it must be said that the collectivization of agriculture is a natural outcome of the development of the productive forces as well as the fruit of the class struggle. The former is the basis and ultimate determining force; the latter is determined by the former and ultimately serves it. There are times when the social economic system is undergoing fundamental changes. Even then, collectivization cannot be realized without subduing the fanatical attacks of the class enemy and overcoming the obstruction of capitalist spontaneity. In this case, the class struggle will in turn play a principal and decisive role on the success or failure of collectivization. To deny this point is, in fact, to deny the fact that under the general conditioning of the material conditions of the objective economy, humanity is always creating its own history. This will place history, including the history of our country's collectivization of agriculture, as something that is self-generating.

To illustrate this point, we will discuss it in connection with our party's struggle against the "gang of four." In the concluding paragraph of the article "On the Relationship," there are the following lines: "The politics of the 'gang of four' was nothing but the concentrated expression of the basic economic interest of the landlord-bourgeois class. All the fallacies they have spread concerning the relationship between politics and economics were aimed at using their capitalist fascist politics to overwhelm the socialist economy and thus change its direction of development. Is this not the truth?" It really is. In the individual localities or units under the strict control of the "gang of four" and their related systems, there was a serious flooding of capitalism. The bleak reality of the collapsing socialist economy bore witness to the hideous crimes of the "gang of four." In the realm of economics such crimes were manifested in "overwhelming the socialist economy to change its direction of development," that is, the

restoration of capitalism. If one regards politics as, in any sense, having no determining effects on the development of economics, one is bound to underestimate the unprecedented catastrophe brought about by the "gang of four" on the socialist economy. Under the leadership of Comrade Hua Guofeng, the party central has smashed the "gang of four." In so doing, the party has overthrown the extremely corrupt and downright reactionary superstructure of the "gang of four." Such a superstructure restored the old relations of production by destroying the new ones, thus obstructing the development of the productive forces. The party's actions have had decisive effects on safeguarding the socialist economic system, preventing the restoration of capitalism and liberating and accelerating the development of the repressed productive forces. In the final analysis, the effectiveness of such actions is due to the fact that the "gang of four" have made the laboring people unhappy. As a result, both the oxen and the machines were unhappy, because the laboring people who used them were unhappy. It is only natural that the people would rise up and overthrow the "gang of four." Their destruction was a historic inevitability.

When talking about the reaction that politics has on economics, Engels pointed out that: "The reaction of state power upon economic development can be of three kinds: It can run in the same direction, during which time development is more rapid; it can oppose the line of development, in which case it will go to pieces in the long run; or it can prescribe other lines and prevent economic development from proceeding along certain lines. This case ultimately reduces itself to one of the two previous ones. But it is obvious that in cases two and three the political power can do great damage to the economic development and cause a great squandering of energy and material." ("Selected Works of Marx and Engels," "Engels to C. Schmidt, October 27, 1890," Vol 4, p 483) Thus it can be seen that, by its own nature, the productive forces constitute a constantly progressing and developing force. However, there also exists the political power which "can oppose the line of development." Furthermore, this kind of political power may "at certain times," actually "prescribe other lines and prevent the economic development from proceeding along certain lines," thus "doing great damage to the economic development and causing a squandering of energy and material." Obviously, the social productive forces suffer from such damages and squandering rather than cause it. The direct cause is exactly the reactionary political power that "oppose the line of development."

Up to this point, we still want to add a few words. Under socialism, the dynamic reaction of politics on economics has its most immense and distinct expression. This is because proletarian politics is always exerting its influence along the same direction as the development of economics. Thus, it can afford tremendous motivation for the development of the economy and put it safely along the road of rapid development. Furthermore, the socialist system of ownership by the whole people is collectively represented by the state. The socialist state possesses concentrated political power as well as concentrated economic power. Therefore, as long as the highest authority of the party and state is in the hands of a genuine Marxist-Leninist,



it is impossible for the socialist economic system of ownership by the whole people to degenerate. The leadership of individual enterprises may have been usurped by class enemies or the upstart bourgeoisie. However, this cannot be regarded as a change in the nature of the system of enterprise ownership because its nature is determined by the nature of the state. In other words, it is protected by state power. These few "elements" who have usurped leading positions in the enterprises will be purged one after the other. This is their unavoidable destiny. Similarly, if the highest leadership of party and state is usurped by men like Khrushchev or Brezhnev, then the concentrated economic power will also be usurped during the time of their usurpation of state political power (not before or after). That is to say, the system of ownership by the whole people will be changed into ownership by bureaucratic monopolistic capitalists. Is this not the facts? This band of traitors representing the capitalist forces existed for a long time within the Soviet Union. Their capitalist restoration was obviously not due to any accidental "mistake" committed "overnight." However, the fact that they assumed power as the political representative of the capitalist forces in society does not deny the principal and decisive effect of their political maneuver, which was aimed at usurping party and state power at the opportune moment, upon the nation's capitalist restoration. Is this not also the facts?

In short, what we mean is that both politics and economics affect the progress of history. These two kinds of effects are in disequilibrium. Among them, in the final analysis, economics is the only determining factor in terms of the ultimate cause. Therefore, it is of the first nature and is a primary factor which absolutely and unconditionally penetrates the whole process of history. However, there are times when the productive forces cannot develop rapidly if the old relations of production are not changed; when the economic base cannot develop if the old superstructure is not changed; and when the highest authority of the party and state are usurped by revisionist. At these times, no matter whether they are positive or negative, politics will play a principal and decisive role on the development of economics. Since this effect is determined by the first nature of economics, it is a derived secondary determining effect. Furthermore, this kind of effect functions only under certain conditions and at certain times. Mostly, it is at the turn of a revolution when the social economic system undergoes fundamental changes. It does not penetrate the whole process of history nor have its effects all the time. For instance, after the new relations of production have been established, the determining factor for the development of the productive forces will not reside in politics as long as they are basically in harmony with the development of the productive forces, rather, it is the movement of the internal contradictions of the productive forces that pushes the productive forces forward. This is especially so with technological innovations and revolution, the advance of science and its rapid application in the process of production, and improvements in the techniques of laborers and so on. The relative qualitative stability of the relations of production enables the productive forces to develop continuously for a longer period and at a greater speed. The determining effect of the productive forces should not be tampered with by



artificially advocating the so-called "uninterrupted revolution" with regard to the fundamental changes of the relations of production.

### **The Reactionary Nature and Forms of Expression of the Various Fallacies Spread by the "Gang of Four" Concerning the Relationship Between Politics and Economics**

The real nature behind the various fallacies concerning the relationship between politics and economics is the usurpation of party power for the restoration of capitalism. Actually, the "gang of four" was a band of Marxist imposters under the cloak of being "revolutionaries." They always disguised themselves as extreme "leftists," and as the "defenders of Marxism-Leninism-Mao Zedong thought." But in actual fact, they wilfully distorted and tampered with Marxism. Such actions certainly contained a greater measure of deceitfulness and perniciousness. Therefore, this bit of sophistry they were playing must be exposed and their reactionary nature exposed to the light of day so that their pernicious influences can be thoroughly liquidated.

How did the "gang of four" plot the conspiracy concerning the relationship between politics and economics and smuggle in their idealistic and metaphysical contraband under the banner of "Marxism?"

First, they lopsidedly exaggerated and infinitely inflated the Marxist principle that within the contradiction between politics and economics, politics can in turn manifest itself in the principal and decisive role under certain conditions. The exaggeration was to such an extent as to divorce politics from economics, deny the primacy of economics and disregard the ultimate and principal determining effect of the productive forces on the progress of history. Something which was relative and existed only "under certain conditions" was misrepresented as something which was "unconditionally" absolute and thoroughly primacy from beginning to end. This not only betrays the nature of reaction in politics but also fundamentally overturns the relationship between politics and economics, making politics something like a sourceless river and a rootless tree. In reality, this was a creation of the pragmatist consciousness of the "gang of four." In this way, the "gang of four" denied the fact that economics is the base and politics the concentrated expression of economics. Their approach was completely identical to the reactionary fallacies advocated by Duhring: "Political conditions are the decisive cause of the economic situation," "the formulation of political relationship is historically the fundamental thing, and instances of economic dependence are only effects or special cases, thus consequently always facts of a second order," "the primacy must be sought in direct political forces and not in any indirect economic power." ("Selected Works of Marx and Engels," Engels: "Anti-Duhring," Vol 3, p 198) This will thus expose the true colors of their historical idealism. It must be pointed out that the distortions made by the "gang of four" with such metaphysical gimmicks did not grow out of confusion in cognition. Rather, they harbored political motives of a more sinister nature: First of all,

they had misrepresented politics as the ultimate and primary force playing the principal and decisive role in the long process of human social development. As a result, they launched a fanatic attack on the basic historical materialist principles of Marxism concerning "the production of material goods is the foundation of human survival and development" and "productive activity is the most fundamental practical activity" and so on. These principles were swept away by the "gang of four" as "theories singling out productive forces as the only factor for social development." They even calumniated that "the building up of the national economy" and "developing the socialist economy to the maximum" were all "revisionist stuff." They also spread the nonsense that "the restoration of capitalism will come in the wake of the four modernizations" and "the satellite going up the sky" will certainly bring "the red flags onto the ground" and so on. Under the onslaught of their reactionary propaganda which brought calamities to the nation and the people, the promotion of production and construction became "restricted areas" for quite some time. In addition, the national economy reached a state of prolonged stagnation and even retrogression. It similarly forced everybody to be cold and hungry and to rely on nothing to pass the day. Through these gimmicks, the "gang of four" placed a large number of veteran cadres, who insisted on socialist construction and working selflessly for the realization of the four modernizations, in the category of "revisionists" and "capitalist-roaders." This directly facilitated the realization of their reactionary political program. On the other hand they had vainly attempted to destroy the material foundation of socialism to build up their capitalist "paradise" upon such "ruins." Secondly, since they had regarded politics as primary and of the first nature instead of the concentrated expression of economics, politics was not subjected to examination by economic practice or its objective results. Thus, politics was as free as a heavenly steed soaring across the sky, rambling in and out without constraints. It did not have to serve economics nor guarantee the completion of economic and technological work. In this way, they could fix the political label on anything they liked. Similarly they could inflate the effects of politics to the extent that suited them. In other words, they could "decide everything" and "lash out at everything." The more they inflated politics to the point of overriding everything, making it as far out and mysterious as possible, the further politics seemed to depart from its foundation. It is all the more easier for them to conceal their criminal activities of putting capitalist fascist politics in command under the cover of their noisy clamoring to put "proletarian politics in command."

Second, Marxism recognizes the positive reaction of the changes of the relations of production on the development of the productive forces. Thus, it accepts the fact that the grasping of revolution can really promote production. However, the "gang of four" have fundamentally distorted this principle. First, starting from the historical idealist viewpoint of abscribing the first nature to politics, they fundamentally refuted the viewpoint that the changes of the relations of production are ultimately caused and determined by the development of the productive forces. They have destroyed our

stability and unity and unceasingly engaged in their "class struggle." In reality, it is a class struggle launched by the capitalist class against the proletariat. They put forth a whole bunch of campaigns "criticizing Song Jiang," "criticizing the prime minister," "criticizing Zhou Gong" and "criticizing the great Confucian scholar" and so on. Are the so-called "revolutions" of the "gang of four" the demands of the development of the socialist productive forces? No. On the contrary, they are a reaction to the demand for progress of the social productive forces. Secondly, the "gang of four" have misrepresented the fact that the changes of the relations of production open up a wide range of possibilities for the development of the productive forces. Instead of this, they argued that the change of the relations production of itself is equal to the rapid development of the productive forces. Thus, they misrepresented a possibility as a reality. As a result, they arrived at the ridiculous conclusion that politics equals economics and revolution is identical with production. Starting from this fallacy, they denied the fact that the development of the productive forces has its own inherent and specific laws. They were especially against the fact that within the productive forces, the technological revolution of the means of production and the advance of science and its application to the process of production are the actual contents of the development of the productive forces. Instead, they put forward the nonsense that "when the revolution is accomplished, increases in production naturally follow"; "as long as the political line is correct, production will increase even if not a single spade has been moved," and so on. This is thoroughly a theory putting consciousness above everything. Lastly, starting from the viewpoint that politics is not the concentrated expression of economics, the "gang of four" divorced politics from economics, making them oppose each other. They not only put forward the nonsense that "as long as the revolution is right, it does not matter even if production falls." They also "invented" a whole set of thoroughly reactionary formulas of "rather have...than...." In reality, they opposed and disrupted the "four modernizations" under the guise of "rather have socialism." They actually opposed and disrupted the socialist economy. To put it bluntly, they would rather have had China relapse into an imperialist colony and semicolony than let China become a prosperous and rich socialist power which has accomplished the "four modernizations." This was precisely the contemptible aim of the "gang of four" in spreading the various fallacies concerning the relationship between politics and economics.

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